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S E C R E T SECTION 01 OF 08 KUWAIT 000665

SIPDIS

EB/ESC/IEC FOR GALLOGLY AND GRIFFIN, NEA/ARP FOR JACKSON
AND BAGWELL, ENERGY FOR IE

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TAGS: EPET ENRG EINV KU OIL SECTOR
SUBJECT: CAUTIOUS OPTIMISM ABOUT KUWAIT'S HYDROCARBON
SECTOR, BUT MANY CAUSES FOR CONCERN

REF: A. 07 KUWAIT 707
¶B. 07 KUWAIT 1626
¶C. 07 KUWAIT 1744

Classified By: Ambassador Deborah Jones for reasons 1.4 (b) and (d)

Summary and Comment

¶1. (C) Kuwait's new Oil Minister and the new CEO of Kuwait Petroleum Corporation (KPC) have led a number of positive developments in Kuwait's oil sector in the past year and have announced plans to make USD 55 billion of investments in new projects over the next five years. After several years of relative stagnation, ambitious projects for refineries, petrochemical plants, gas production, and heavy crude production finally seem to be moving forward both domestically and internationally. Nevertheless, the outlook for "Project Kuwait," the long delayed plan to invite international oil companies (IOCs) to participate in the development of a handful of Kuwait's northern oil fields through operating service agreements, still looks bleak. However, the leaders of Kuwait's oil sector and local country managers of IOCs are now much more optimistic about the prospects for Enhanced Technical Service Agreements (ETSAs), under which KPC would pay high fixed fees and variable, production-based incentives for IOCs to assign a significant number of engineers and managers to Kuwait Oil Company (KOC) as long-term "consultants." This model envisions a robust partnership in which IOCs would devote more technology, expertise, and resources to the expansion of Kuwait's crude oil production capacity. At the same time, KPC's successful partnership with Dow Chemical continues to grow.

¶2. (C) Significant challenges remain. Populist opposition MPs play on public sentiments of resource nationalism and make it difficult for the government to launch new projects, especially those of potential benefit to foreign companies. At the same time, problems of recruiting, training, and retention at KPC are resulting in a growing talent deficit that makes robust IOC involvement even more essential. The threat of power outages looms large again this summer as the Ministry of Electricity struggles ineffectively to build new power plants and KPC struggles to produce the environmentally friendly fuel (both gas and low-sulfur fuel oil) needed to power them. Finally, the vulnerability of Kuwait's energy infrastructure to terrorist attack remains significant. The success of the oil sector's leaders in implementing these new projects and partnerships over the anticipated resistance of the new Parliament, which will become active in the fall after Ramadan, will be a bellwether for Kuwait's oil sector

in the coming years. End Summary and Comment.

New Domestic Projects

¶3. (U) KPC, the parent corporation of Kuwait's ten state-owned hydrocarbon companies, has announced plans to invest USD 55 billion in new projects over the next five years. Domestically, these projects are divided between KOC, which handles upstream exploration and production; Kuwait National Petroleum Company (KNPC), which handles downstream refining and marketing; and Petrochemicals Industries Company (PIC). The following domestic and international projects (along with prospective ETSAs listed in the IOC section further below) will consume the bulk of the USD 55 billion:

¶A. New Refinery Project (NRP): the contracts for this USD 14 billion (est.) project will finally be awarded later this summer after years of delay. The refinery, to be located in the Kuwait portion of the Partitioned Neutral Zone (PNZ) adjacent to the Saudi Arabian Chevron (SAC) compound at Mina Al-Zour, will be rated to produce 615,000 bbl/d but is designed primarily to produce 225,000 bbl/d of environmentally-friendly, low-sulfur fuel oil for use in Kuwait's thermal (steam) power plants. It will process Kuwaiti heavy crude, which is difficult for the Kuwaitis to market internationally. KNPC's CEO says it is impossible to import sufficient quantities of low-sulfur fuel oil for power generation, so in the interest of protecting the environment, Kuwait has decided to build this refinery to produce the fuel locally despite the astronomical cost of the project which

far exceeds KNPC's original budget. A long-running dispute involving the GOK, Saudi government, KNPC, and SAC over the location of the refinery was finally resolved after an April meeting between the Amir of Kuwait and the King of Saudi Arabia. The Kuwaitis agreed to move the refinery a few hundred meters southward and inland in order to avoid interfering with SAC's current operations and expansion plans. On 11 May, KNPC announced the winners of the major contract packages for the refinery. These include Korean, Japanese, and Kuwaiti companies, as well as U.S.-based Fluor. Contracts are expected to be signed in July. Unusually for Kuwait, the contracts are being awarded on a cost-plus basis, so the ultimate cost of the project remains to be determined.

¶B. Clean Fuels Program: this is a USD 19 billion (est.) project to expand and upgrade two existing refineries at Mina Al-Ahmadi and Mina Abdullah. Unlike the low-sulfur fuel oil produced through NRP, the low-sulfur middle distillates produced through CFP will be produced primarily for export to western countries with stringent emissions regulations. The combined processing capacity of the two refineries will be increased by 200,000 bbl/d by 2012 when Kuwait's aging and accident-prone Shuaiba refinery is due to be retired. Contracts will likely be awarded in August. U.S. companies Bechtel and KBR are expected to bid. Once NRP and CFP are fully onstream and Shuaiba is retired, Kuwait's total refining capacity will have increased from 900,000 bbl/d to 1.4 million bbl/d.

¶C. Non-associated Gas Early Production Facilities (EPFs): this three-stage project is for the development of the 35 trillion cubic foot (est.) non-associated, Jurassic gas field, whose discovery was announced in early 2006. Initial estimates predict that 60-70 percent of this gas is ultimately recoverable. The USD 240 million, five-year, first-phase contract was awarded to the local Safwan Petroleum Technologies. It is essentially a build-operate-transfer (BOT) contract under which Safwan is expected to produce 175 million cf/d of gas as well as 50,000 b/d of condensate. Production began in early June, two months behind schedule. A second phase will increase production to 600 million cf/d by 2011, with a third phase bringing output to 1 billion cf/d by 2016, according to KOC.

The second phase has yet to be tendered. Methane from the EPFs will primarily go to domestic power generation, whereas ethane and condensate will go to Kuwait's petrochemical plants. It is worth noting that under the EPFs, KOC is effectively paying a private company to extract upstream resources on its behalf. This marks a significant departure from KOC's previous position that private companies could do no more than provide technical services.

¶D. Early Production Facilities for Wet Sour Crude: this relatively small (USD 117 million) contract is noteworthy because an American company, California-based Processes Unlimited, has been hired by KOC to independently produce 120,000 bbl/d of wet sour crude and 80 million cf/d of liquefied petroleum gas. This is a BOT contract similar to the gas EPF. To the best of our knowledge, it is the only instance of an American company being given what amounts to a production contract, albeit without production sharing, outside of Chevron's work in the Neutral Zone.

¶E. LNG Processing Facilities: in March, Kuwait signed a USD 150 million contract with Texas-based Excelerate Energy to build import facilities for liquefied natural gas (LNG) for completion by April 2009. In April, Excelerate accepted delivery of an advanced-technology LNG regasification vessel under a 25-year charter from Daewoo Ltd. of South Korea. KNPC plans to import 500 to 750 million cf/d of LNG from Qatar starting in summer 2009 for power generation during Kuwait's peak consumption season of May-September. LNG negotiations between KNPC and RasGas of Qatar are ongoing. LNG imports are intended to be a temporary measure for three to four years until domestic gas production reaches sufficient scale to make Kuwait self-sufficient in producing natural gas for power generation and petrochemical feedstock.

¶F. New Petrochemical Facilities: through its joint venture with Michigan-based Dow Chemical Company, PIC is completing its USD 5 billion Olefins II and Aromatics

projects which will produce ethylene, polyethylene, glycol, and styrene. The first phase of Olefins II will be online in August 08. Aromatics is expected to come online in the first quarter of 2009. American contractors Fluor and Bechtel are participating in the construction.

¶G. Additional Projects: KOC and KNPC are also tendering projects for pipelines, gathering centers, export infrastructure, gas trains, and security installations.

International Projects

¶4. (U) Internationally, Kuwait's upstream (exploration and crude oil and gas production) projects are managed by Kuwait Foreign Petroleum Exploration Company (KUFPEC) and downstream (refining and retail marketing) projects are managed by Kuwait Petroleum International (KPI). Petrochemical projects are managed by Petrochemical Industries Company (PIC).

¶A. In April, KPI announced a USD 6 billion refining and petrochemical joint venture in Vietnam's Thanh Hoa province with Japanese partners Idemitsu Kosan and Mitsui and Vietnamese partner Petrovietnam. KPI will hold a 35 percent stake. The 200,000 bbl/d refinery will process only Kuwaiti crude. It is expected to come online in 2013.

¶B. KPI is partnering with Sinopec, Dow Chemical Company, and possibly Shell to build a 300,000 bbl/d refinery and petrochemical complex in China's southern Guangdong Province. Approval for the USD five billion complex, which will also process only Kuwaiti crude, is awaiting the completion of feasibility studies and environmental permits.

¶C. KPI has also been in talks with Reliance Industries

and other Indian companies about building a 150,000-400,000 bbl/d refinery-petrochemical complex in India.

¶D. In December, Dow Chemical announced a new 50-50 joint venture with PIC to be established by the end of 2008. The joint petrochemical company will be headquartered in the United States and employ about 5,000 people including staff from each of the parent companies. The managing director will be from Dow and his deputy will be from PIC. The venture will manufacture and market polyethylene, ethylenamines, ethanolamines, polypropylene, and polycarbonate. To create the company, Dow is selling PIC portions of its production facilities in Canada, Argentina, Spain, Texas, and Louisiana for USD 9.5 billion, 50 per cent of the asset value of the new venture. Revenues for the first year of operations are projected to be USD 11 billion. This major investment by PIC will be one of the first cases to go through the recently revamped CFIUS process.

¶E. For a number of years, KPC has been considering investment in a new refinery in the United States but has been deterred by perceived regulatory and permitting challenges. KPC managers say they have not ruled out the possibility of such a project, but they would want an established, reputable U.S. partner, assurances of assistance with the regulatory red tape and political support from the government of the host state. Pending anti-OPEC legislation which might place KPC's U.S. assets at risk is another significant deterrent to investment.

Cooperation with IOCs, Service Companies

¶5. (C) International Oil Companies (IOCs) including ExxonMobil, Chevron, BP, Total, and Shell continue to maintain a permanent (if token) presence in Kuwait even though the outlook for Project Kuwait, the (originally) USD 8.5 billion proposal to invite IOCs to participate as partners in the development of some of Kuwait's more difficult northern oil fields through Operating Service Agreements, is bleak. Despite press statements by the Amir, Prime Minister, and Oil Minister in apparent support of the Project, and a recent statement suggesting that the terms of conditions of the prospective Project Kuwait contracts have been updated, the combination of contentious relations between the Parliament and the Government, exceptionally strong government finances which make the project seem

unnecessary, and a lack of consistent political leadership of Kuwait's oil sector (eight ministers in the 17 years since liberation, compared to Saudi Arabia's three oil ministers in the last 45 years) all diminish the chances of getting Project Kuwait through the Parliament.

¶6. (C) Resource nationalism is ably exploited by several of Kuwait's more strident opposition MPs. One embassy contact from the Supreme Petroleum Council says that most MPs understand the need for Project Kuwait but continue to play politics and cater to special interests, allowing patronage and tribalism to trump broader, long-term national interests. Furthermore, local IOC managers suspect that the current terms and conditions of contracts would not adequately account for current market conditions, so even if the Project Kuwait legislation were to be approved by the Parliament, the major IOCs might decline to bid.

¶7. (C) As reported previously (reftels), in the long absence of any progress on Project Kuwait, KOC managers and several of the IOCs are now pursuing "enhanced" technical service agreements (ETSAs) as an alternative. In order to meet its production targets, KOC recognizes that more IOC technology and expertise is needed to develop more complex reservoirs and process heavier and more sour crude. Under the ETSA model, Kuwait would pay premium prices to have IOCs assign engineers and managers to Kuwait Oil Company as long-term

"consultants." High fixed fees would be complemented by variable, performance-based pay contingent upon meeting agreed production targets.

¶8. (C) Former KOC Chairman Farouk Al-Zanki told the Ambassador in January 2007 that under existing TSAs the IOCs do "everything for us" (i.e. provide assistance with exploration, reservoir mapping, production planning, and field operations), but "they don't get paid enough for doing it." The IOC managers agree that they are not getting paid enough under existing TSAs; so, given the bleak outlook for Project Kuwait and the increasing scarcity of qualified petroleum engineers, the IOCs are now prepared to let their existing TSAs with KOC expire. BP's expired on May 31. Chevron's expires in August. Country managers from both companies tell us that if they fail to reach favorable terms with KOC for a TSA, they are prepared to close up their shops in Kuwait since the meager returns they have to show after more than a decade of pursuing unrealized opportunities (such as Project Kuwait) make it difficult for them to justify dedicating any more resources here. Chevron's presence in Kuwait has already diminished from 40 expatriate engineers last year to only four today. BP's presence has been gradually reduced to seven expatriate engineers from a high of 45 four years ago.

¶9. (SBU) On the bright side, the local IOC managers are guardedly optimistic about the prospects for lucrative ETSAs. Exxon is the most enthusiastic and currently seems to be the best positioned. In October, KOC announced it had signed a Heads of Agreement (similar to a memorandum of understanding) with ExxonMobil to develop heavy crude oil reserves under an ETSA. As Kuwait's light crude reservoirs age, KOC will increasingly need to turn to its abundant reserves of heavy crude to meet its ambitious oil production targets. According to KOC Deputy Managing Director for North Kuwait Khalid Al-Sumaiti, as reported in the Middle East Economic Digest, "The plan is to have heavy oil constituting almost 25 per cent of Kuwait's 2020 oil production." Yet, KOC has almost no experience with heavy oil production, processing, or marketing; so under the terms of the prospective deal, Exxon would be "involved in all aspects of the production chain from upstream to downstream," said Al-Sumaiti. "We will use the enhanced TSA framework for the upstream element, and probably a joint venture for the downstream aspect." The final terms will be ironed out once an ongoing feasibility study is completed. KOC announced that this study would be completed in July 2008. Exxon expects it to be completed later in the year and hopes to have the contract(s) ironed out by early 2009.

¶10. (SBU) Separately, Chevron and BP are negotiating ETSAs with KOC for the Burgan field complex and Kuwait's western oil fields respectively. Chevron and KOC have essentially agreed on all the terms except the price. At this point, it

is unclear whether they will arrive at a mutually acceptable figure. BP has a draft Heads of Agreement but continues to be frustrated at KOC's unwillingness to treat it as an integrated oil company rather than a service company. BP essentially wants to be able to operate autonomously in the fields assigned to it and receive adequate remuneration for the risk it assumes. KOC has approached Shell about an ETSA for gas production and development, but Shell is apparently uncomfortable with any arrangement that does not allow it to take some kind of equity stake. Total is expected to abandon Kuwait after its existing TSA expires. Conoco Phillips is reportedly positioning itself to negotiate an ETSA for the western fields in case BP's negotiations fall through. KOC has also reportedly approached Statoil, Repsol, and Marathon about ETSAs, but none of the talks has advanced very far.

¶11. (C) KOC is proceeding with the hope that the ETSA framework will attract more robust participation by IOCs while obviating the need for parliamentary approval that

Project Kuwait would have required. However, the Parliament is bound to watch developments closely. Populist MP Ahmed Al-Saadoun, a long-time critic of IOC involvement in Kuwait who was re-elected on May 17, has already demanded clarification from the Oil Ministry on the terms of the Exxon deal.

¶12. (SBU) Meanwhile, as IOC involvement remains constrained and KOC's own levels of technology and talent remain limited, the big winners are oil field service companies like Halliburton and Schlumberger and project management consultants like Fluor and Amec. Halliburton and Schlumberger each have several hundred employees on the ground in Kuwait to whom KOC has outsourced almost all of its field work and some of its management responsibilities. Fluor and Amec have both signed multi-million dollar contracts in the past year to manage both upstream and downstream projects.

Plans for R&D and Environmental Innovation

¶13. (C) The leaders of Kuwait's energy sector are also considering new investments in Kuwait's virtually non-existent research and development capabilities. A blue ribbon panel established by the Amir in 2007 produced a proposal, subsequently endorsed by the Amir, calling for new funding for research focused on petroleum (especially heavy crude), solar energy, and water desalination. KPC also has tentative plans to create a new petroleum research center in partnership with Texas A&M, Colorado School of Mines, MIT, IFP (France), Schlumberger, and/or Exxon. KPC and the Oil Ministry have also announced plans to invest in Carbon Capture and Storage (CCS) technology to reduce Kuwait's greenhouse gas emissions and possibly inject captured CO2 into underpressurized oil reservoirs.

Leadership, Strategy, and Staffing

¶14. (C) The current leadership of the Oil Ministry and KPC provides cause for cautious optimism. KPC CEO Saad Al-Shuwaib, who took the helm of KPC only a year ago, has been remarkably successful in launching important projects, expanding KPC's international presence, and streamlining corporate management. A University of Wisconsin-educated engineer, Al-Shuwaib worked his way up through the ranks of KPC's Petrochemical Industries Company (PIC) before being selected as CEO of KPC in April 2007. While at PIC, Al-Shuwaib built the company's hugely successful partnership with Dow Chemicals, first creating a petrochemical joint venture in Kuwait, and then exporting the Dow-KPC partnership to other parts of the world. Al-Shuwaib has a reputation for being a hands-on manager who is not shy about asserting control. Since becoming KPC CEO, with the support of a non-interfering Oil Minister, Al-Shuwaib changed the composition of the KPC corporate board, created an International Advisory Board, appointed new CEOs and Deputy CEOs at each of KPC's subsidiaries, streamlined and consolidated KPC's chain of command to improve communication and decision-making, and announced plans for USD 55 billion in new investment over the next five years after years of underinvestment and unrealized projects. Since becoming CEO,

Al-Shuwaib has met with the CEOs of all of the major IOCs in person, except Chevron's David O'Reilly, and visited all of KPC's leading customers in Asia.

¶15. (C) In terms of strategy, Al-Shuwaib touts KPC's ambitious domestic crude oil production targets of 3.0 million bbl/d by 2010, 3.5 million by 2015, and 4.0 million by 2020. He freely admits that ETSAs are the only way KPC can hope to reach these targets. KPC is also clearly more focused under Al-Shuwaib on developing international markets, especially emerging markets in Asia, through partnerships

with both local companies and world-class refiners and petrochemical companies like Shell and Dow Chemical. Many of these new international ventures are in the downstream and follow the model of building a joint-venture refinery and petrochemical facility designed, and contractually obligated, to accept only Kuwaiti crude. KUFPEC, Kuwait's subsidiary for foreign exploration and production in the upstream, remains a minor player, producing only 60,000 bbl/d. Institutionally, Al-Shuwaib wants to remove politics from the oil sector and make KPC run more like a commercial company and less like a government ministry. In the medium term, he hopes to consolidate KPC's ten subsidiaries into an upstream company, a downstream (refining and marketing) company, and a petrochemical company. Eventually, he would like to convert Kuwait Petroleum Corporation, which is currently incorporated as a government body, into Kuwait Petroleum Company, which would be regulated by Kuwaiti commercial law and function with greater independence from the government. This final goal is probably a bridge too far since the necessary enabling legislation would require Parliamentary approval.

¶16. (C) Oil, Electricity, and Water Minister Mohammed Al-Olaim, whose appointment was renewed on June 1, has, despite being an Islamist and formerly a politically aggressive MP, performed more like a technocrat as Electricity Minister since March 2007, and Acting Oil Minister since June 2007. He has a degree in industrial engineering degree from North Carolina A&T and previously worked as Director of Planning at KOC. He is well respected by the oil sector managers, largely because he has been exceptionally hands-off, allowing KPC's management team to run the business without the usual unwelcome political interference from the Ministry and Parliament. He is supportive of plans to expand KPC's cooperation with international oil companies (IOCs), but, as discussed above, the Parliament is likely to thwart any such plans. As Electricity Minister, he continues to fight a difficult battle to make new investments to expand Kuwait's insufficient power generating capacity, but a sclerotic and politicized public contracting system has largely tied his hands.

¶17. (C) Turning to KPC's limited capabilities to increase production without the support of IOCs, oil sector managers complain that they face significant challenges in recruiting, training, motivating, and retaining qualified professionals. Kuwait University's petroleum engineering department has difficulty attracting talented students and graduates only 20 petroleum engineers per year. A petroleum engineering professor and member of Kuwait's Supreme Petroleum Council (SPC) says he encourages his best students to work for IOCs, where they will receive mentoring and continual professional development, which they would not receive at the KOC. This contact added that, in his opinion, the 1975 nationalization of KOC was one of the greatest blunders in the history of the country. He contrasts the high level of training and exposure that his generation of petroleum engineers received from BP and Gulf (now Chevron) with the lack of attention paid to professional development in today's KOC. One IOC country manager explains that "within KOC, employees are treated as a cost center, rather than as assets to be invested in." Several contacts have remarked that the Government effectively uses the KPC companies as a jobs program. Within the Kuwaiti system, job placement and advancement are generally based on family connections more than talent and qualifications, so there is little extrinsic incentive to excel at work. Those with an innate desire to achieve tend to gravitate towards the private sector. In recent years, a number of the more talented engineers and managers at the KPC companies have left to join IOCs or start consultancies or services companies. These difficult

circumstances have led many of KPC's senior managers to the inevitable conclusion that greater participation by IOCs is critical to the long-term health of Kuwait's oil sector.

Fuel for Power Generation

¶18. (C) Kuwait's electrical generating capacity has come under strain due to years of underinvestment in new power plants and rapidly rising (eight percent per annum) consumption, which is heavily financed by government subsidies. The level of subsidies and the impunity enjoyed by those who refuse to pay their electrical bills mean that there is effectively no price mechanism to moderate usage. The current capacity of Kuwait's six power plants is about 10,500 MW. The maximum peak loads for summer 2008 are expected to exceed this capacity, leading to rolling blackouts during the peak consumption hours of the afternoon. Last summer, the Ministry of Electricity and Water barely avoided widespread outages by shutting down power to government offices after sending employees home in the early afternoon. Unfortunately, the Ministry has probably squeezed as much spare capacity as it can out of this forced conservation measure, so the likelihood of major outages this summer is great. (Note: These outages are not expected to significantly affect the Embassy or DoD facilities in Kuwait. Many of these facilities have their own generators and the Ministry of Electricity and Water assures us that they will be treated as vital load centers. End note.)

¶19. (C) A lack of new power plants is the biggest problem affecting Kuwait's power sector, but figuring out how to fuel these plants is another dilemma. According to the CEO of KOC, Kuwait currently consumes about two billion BTU/day. This figure is expected to rise to 5 billion by 2020. According to figures provided by the Ministry of Electricity and Water, about 66 percent of Kuwait's power is currently generated by traditional thermal (steam) plants with the remaining 34 percent generated by gas turbines. In terms of fuel, 58.2 percent of Kuwait's power comes from the burning of high-sulfur heavy fuel oil (resulting in high levels of air pollution), 18.4 percent from the burning of crude oil, 2.4 percent from gas oil, and 20.9 percent from cheaper and cleaner burning natural gas. KOC's CEO says Kuwait's oil-fired power plants consume 125,000 bbl/d of crude, which equates to more than USD 12 million/day or USD 4.4 billion/year in lost export revenues. While the burning of crude oil and heavy fuel oil accounts for 76.6 percent of Kuwait's power, it accounts for 92.4 percent of fuel costs. In light of this lost revenue and the environmental impact of burning crude oil and heavy fuel oil, the GOK has decided that all of Kuwait's new power plants will be gas turbines. However, domestic gas production is still limited and it will be a number of years before Kuwait's thermal plants can be decommissioned.

¶20. (C) Once the new refinery is complete, the low-sulfur heavy fuel oil it produces will be burned to produce about 1.2 billion BTU. An additional 1.6 billion is expected to come from the burning of associated gas from Kuwait's oil fields. (Note: KOC claims that it currently flares ten percent of the associated gas produced from Kuwait's oil fields. It recently announced plans to reduce flaring to zero to protect the environment and capture more gas for power generation. End note.) Once the domestic production of Kuwait's non-associated gas reaches full scale, by about 2016, Kuwait hopes to produce enough gas domestically to meet all its power needs. In the meantime, the GOK plans to use LNG imports from Qatar to fill the gap. Despite sporadic conversations with Iran about a possible pipeline to supply gas from Iran to Kuwait, the leaders of Kuwait's oil sector say they have no serious plans to import gas from Iran, which they consider to be an unreliable supplier. Occasional talks about importing gas from Iraq have made little progress.

Critical Infrastructure Protection

¶21. (S) Kuwait's efforts to reduce the vulnerability of its critical energy infrastructure to physical attack remain

piecemeal, uncoordinated, and generally inadequate. While

projects have been implemented to physically strengthen perimeter security, security forces still lack resources and training; command, control, and communications remain dysfunctional; access controls are insufficient; and security upgrades are installed without giving adequate consideration to integration or a broader, systemic approach. The GOK remains hesitant to sign an MOU with the USG to create a Joint Working Group for Critical Energy Infrastructure Protection (CEIP), citing problems with the GOK's internal bureaucracy which make it impossible to place overall authority for CEIP under any single government entity. A well coordinated attack on Kuwait's refineries, export facilities, or petrochemical plants (which are almost all co-located) could have a crippling effect on the country's capacity to export both crude oil and refined products.

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